

VZCZCXRO0740  
RR RUEHLH RUEHPW  
DE RUEHIL #2996 2551356  
ZNR UUUUU ZZH  
R 111356Z SEP 08  
FM AMEMBASSY ISLAMABAD  
TO RUEHC/SECSTATE WASHDC 8754  
INFO RUEHRC/DEPT OF AGRICULTURE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHRC/USDA FAS WASHDC 4265  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC  
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL  
RHMFISS/CDR USCENTCOM MACDILL AFB FL  
RUEKJCS/SECDEF WASHINGTON DC  
RUEHKP/AMCONSUL KARACHI 0290  
RUEHLH/AMCONSUL LAHORE 6032  
RUEHPW/AMCONSUL PESHAWAR 4842  
RUEHNE/AMEMBASSY NEW DELHI 3748  
RUEHBUL/AMEMBASSY KABUL 9103

UNCLAS ISLAMABAD 002996

SENSITIVE  
SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAID](#) [EFIN](#) [ENGY](#) [PK](#)

SUBJECT: PAKISTAN ANNOUNCES SIGNIFICANT POWER TARIFF INCREASE

¶1. (SBU) Summary: On September 9 the Government of Pakistan (GOP) announced a 31 percent average increase in the electricity tariff for domestic customers to go into effect the first week of October. The GOP also changed pricing rules for the tiered tariff structure. Electricity prices for domestic consumers are thus set to increase between 16 and 65 percent, depending on consumer usage. The GOP intends to raise electricity tariffs by another 30 percent before the end of the GOP's FY08-09, completely eliminating electricity subsidies. Industry and commercial tariffs will also rise, though the rates of increase have not yet been announced. This unprecedented tariff hike, while a significant step towards eliminating electrical subsidies and reviving Pakistan's utility sector, will represent a major challenge to Pakistani citizens, businesses, and the Pakistan People's Party (PPP)-led Government. Time will tell whether or not such a tough reform measure - the most significant increase in electricity rates ever in Pakistan's history - was too much, too soon. End summary.

¶2. (SBU) In June, the GOP raised electricity rates by 16 percent by imposing a general sales tax on power consumption. The June increase, coupled with the September 9 announcement, places the average total increase in Pakistan's power tariff at 47 percent.

¶3. (SBU) The GOP said it will completely eliminate electrical subsidies by the end of the GOP's FY08-09. This first phase increase runs between 16 and 65 percent, averaging about 31 percent, depending on consumer usage. In the second phase, the GOP plans to raise tariffs by another 30 percent by the end of the GOP's fiscal year in June 2009. Ministry of Water and Power sources told the Embassy Economic Section the GOP will release a 150-page official notification regarding the tariff hike later this week.

¶4. (SBU) Based on Pakistan's tiered pricing structure, customers who consume less pay less, while customers with higher consumption rates pay more. Along with rate increases, the GOP changed tiered pricing rules. Consumers will now be charged one rate based on total consumption. In the past, customers in higher tiers were charged lower tier rates until reaching a certain point of consumption, above which they were then charged the next higher tier rate.

¶5. (SBU) Comment: Other governments, the International Monetary Fund (IMF), and the World Bank for months have been urging the GOP to take action to reduce electricity subsidies in the face of the GOP's rapidly worsening balance of payments situation. While the new rate hike is one of the most significant steps the GOP has taken to eliminate subsidies, it will increase costs for Pakistani manufacturers and negatively impact revenue by making Pakistani exports less competitive in the world market.

16. (SBU) Comment Continued: This economic reform measure may also represent a major political challenge to the PPP government. Average Pakistani workers and families face a 16 percent or 65 percent increase, depending on their rate of consumption. Even the poorest consumers will have to pay 20 percent or 47 percent more, depending on how much they consume. Moreover, the increased tariff comes at a moment when millions of Pakistanis continue to suffer from long periods of load-shedding, albeit somewhat less than was the case a few weeks ago. Thus, they are being asked to pay dramatically more for a nearly non-existent service. Public reaction thus far has been marked by confusion and dismay, in part because the media are reporting inconsistent information about the price hikes. We may see greater public outcry once the full impact of the hike becomes widely known. Sanctioning the most significant increase in electricity rates ever during Ramadan and at a time when inflation is running at a record high is politically risky. End comment.

PATTERSON